PHUMELELA LOCAL MUNICIPALITY

UNAUDITED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Phumelela Local Municipality

(Registration number Demarcation number: FS 195)
Unaudited Annual Financial Statements for the year ended 30 June 2018

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	Providing municipal services and maintaining the best interests of the local community
Mayoral committee	
Executive Mayor	Cllr. TJ Motaung
Councillors	Cllr. TJ Motaung
	Cllr. TR Zwane
	Cllr. SE Tshabalala
	Cllr. DA Wessels
	Cllr. KA Sibeko
	Cllr. MM Mashinini
	Cllr. NJ Mokoena
	Cllr. MB Mhlambi
	Cllr. BV Khumalo
	Cllr. MS Ntsele
	Cllr. VP Kibido
	Cllr. B Mthombeni
	Cllr. TM Tshabalala
	Cllr. OA Mokoena
	Cllr. JM Mofokeng
Grading of local authority	Low Capacity (Grade 2)
Chief Finance Officer (CFO)	Mr SA Nyapholi (Resigned)
	Mr F Ralebenya (Acting)
Accounting Officer	Mrs NF Malatjie
Registered office	Civic Centre Corner Prinsloo and Kuhn Streets Vrede 9835
Business address	Civic Centre Corner Prinsloo and Kuhn Streets Vrede 9835
Postal address	Private Bag X5 Vrede 9835
Bankers	ABSA Bank Limited First National Bank Limited
Auditors	Auditor General South Africa
Attorneys	Ntsoane Attorneys

Phumelela Local Municipality
(Registration number Demarcation number: FS 195)
Unaudited Annual Financial Statements for the year ended 30 June 2018

Index

The reports and statements set out below comprise the unaudited annual financial statements presented to the provincial legislature:

Phumelela Local Municipality
(Registration number Demarcation number: FS 195)
Unaudited Annual Financial Statements for the year ended 30 June 2018

Index

CIGFARO	Chartered Institute of Government Finance Audit and Risk Officers
CPI	Consumer Price Index
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
DORA	Division of Revenue Act
DWS	The Department of Water and Sanitation
EPWP	Expanded Public Works Programme
FMG	Financial Management Grant
GAAP	South African Statements of Generally Accepted Accounting Practice
GLCCM	General Landfill Closure Costing Model
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
INEP	Intergrated National Electrification Programme
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
LSA	Long Service Awards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MLCCM	Municipal Landfill Closure Costing Model
NDP	Neighbourhood Development Programme
NDPG	Neighbourhood Development Partnership Grant
PEMA	Post-employment Medical Aid subsidy liability
SA GAAP	South African Statements of Generally Accepted Accounting Practice

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the unaudited annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the unaudited annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the unaudited annual financial statements and was given unrestricted access to all financial records and related data.

The unaudited annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The unaudited annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the unaudited annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's unaudited annual financial statements. The unaudited annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The unaudited annual financial statements set out on pages 5 to 98, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018:

Accounting Officer
Mrs NF Malatjie
Friday, 31 August 2018

Phumelela Local Municipality
(Registration number Demarcation number: FS 195)
Unaudited Annual Financial Statements for the year ended 30 June 2018

Accounting Officer's Report

The accounting officer submits her report for the year ended 30 June 2018.

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services and maintaining the best interests of the local community and operates principally in South Africa and [state other countries].

The operating results and state of affairs of the municipality are fully set out in the attached unaudited annual financial statements and do not in our opinion require any further comment.

Net surplus of the municipality was R 74,315,848 (2017: deficit R 23,019,111).

2. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus (deficit) of R 522,212,783 and that the municipality's total liabilities exceed its assets by R 522,212,783.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The Accounting Officer does not have an interest in contracts.

5. Accounting policies

The unaudited annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name
Mrs NF Malatjie

7. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Board meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

Accounting Officer's Report

Audit and risk committee

The Audit committee met 5 times during the financial year to review matters necessary to fulfil its role.

The following members conclude the audit committee:
- Mr KM Mojatau (AC Chairperson)
- Mrs ET Femele (Member)
- Mr S Morare (Member)
- Ms MR Reid (Member)

Meeting Dates:

2017/08/29
2017/11/24
2017/11/30
2018/02/23
2018/05/11

Internal audit

The municipality has a fully functional Internal Audit Unit. This is in compliance with the Municipal Finance Management Act, 2003.

8. Bankers

ABSA Bank and First National Bank Limited is used for daily operations as well as investing of grant funding.

9. Auditors

Auditor General South Africa will continue in office for the next financial period.

10. Public Private Partnership

In accordance with the PPP agreement, the Contractor shall open a separate account with a bank registered in the Republic of South Africa, for the purpose of administering and separate safekeeping of:

- moneys deposited as excess surpluses;
- any foreign exchange rate amounts;
- any service credits; andAdditional text

Phumelela Local Municipality did not enter into any Public Private Partnership for the 2017/2018 financial year, nor does it have any existing PPP's.

Phumelela Local Municipality
(Registration number Demarcation number: FS 195)
Unaudited Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Cash and cash equivalents	13	7,882,345	1,182,093
Inventories	8	938,288	576,257
Other financial assets	6	5,384	-
Receivables from exchange transactions	9&12	11,809,606	4,997,902
Receivables from non-exchange transactions	10&12	2,417,449	607,236
VAT receivable	11	10,476,829	6,121,305
		33,529,901	**13,484,793**
Non-Current Assets			
Heritage assets	5	5,761	5,761
Investment property	3	16,260,172	16,685,118
Other financial assets	6	464,542	481,456
Property, plant and equipment	4	760,376,989	684,350,454
		777,107,464	**701,522,789**
Total Assets		**810,637,365**	**715,007,582**
Liabilities			
Current Liabilities			
Consumer deposits	18	234,469	238,982
Employee benefit obligation	7	435,205	658,959
Other financial liabilities	15	413,778	473,043
Payables from exchange transactions	17	233,742,896	186,047,085
Provisions	16	2,941,992	8,819,635
Unspent conditional grants and receipts	14	8,175,786	-
		245,944,126	**196,237,704**
Non-Current Liabilities			
Employee benefit obligation	7	4,757,519	4,496,436
Other financial liabilities	15	-	326,009
Provisions	16	37,722,937	66,050,499
		42,480,456	**70,872,944**
Total Liabilities		**288,424,582**	**267,110,648**
Net Assets		**522,212,783**	**447,896,934**
Accumulated surplus		522,212,783	447,896,934

* See Note 43

Phumelela Local Municipality
(Registration number Demarcation number: FS 195)
Unaudited Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Interest received	23	9,668,702	9,493,999
Other income	22	459,849	441,264
Rental of facilities and equipment	21	1,290,307	391,518
Change in discount factor - landfill site	16	40,671,888	-
Service charges	20	34,175,390	30,855,009
Total revenue from exchange transactions		**86,266,136**	**41,181,790**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	24	13,600,760	11,870,853
Transfer revenue			
Fines		48,600	239,380
Government grants & subsidies	25	162,511,024	127,415,501
Public contributions and donations	26	3,275,980	4,470,006
Total revenue from non-exchange transactions		**179,436,364**	**143,995,740**
Total revenue	19	**265,702,500**	**185,177,530**
Expenditure			
Bad debts written off	32	(1,389,045)	(676,013)
Bulk purchases	33	(29,567,775)	(30,543,066)
Collection costs		-	(117,178)
Contracted services	34	(6,314,694)	(7,961,968)
Debt Impairment	32	(29,840,737)	(35,451,633)
Depreciation and amortisation	29	(16,857,180)	(17,184,969)
Employee related costs	27	(59,010,458)	(55,743,415)
Finance costs	31	(22,855,960)	(30,267,720)
General Expenses	35	(20,880,275)	(25,284,243)
Impairment loss/ Reversal of impairments	30	(48,600)	(103,166)
Lease rentals on operating lease		-	(257,155)
Remuneration of councillors	28	(6,010,973)	(5,282,128)
Total expenditure		**(192,775,697)**	**(208,872,654)**
Surplus/(deficit) for the year		**72,926,803**	**(23,695,124)**

* See Note 43

Phumelela Local Municipality

(Registration number Demarcation number: FS 195)
Unaudited Annual Financial Statements for the year ended 30 June 2018

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	470,349,335	470,349,335
Adjustments		
Prior year adjustments	566,710	566,710
Balance at 01 July 2016 as restated*	**470,916,045**	**470,916,045**
Changes in net assets		
Surplus for the year	(23,019,111)	(23,019,111)
Total changes	(23,019,111)	(23,019,111)
Opening balance as previously reported	447,875,988	447,875,988
Adjustments		
Prior year adjustments	20,947	20,947
Restated* Balance at 01 July 2017 as restated*	**447,896,935**	**447,896,935**
Changes in net assets		
Surplus for the year	74,315,848	74,315,848
Total changes	74,315,848	74,315,848
Balance at 30 June 2018	**522,212,783**	**522,212,783**

Note(s)

* See Note 43

Phumelela Local Municipality
(Registration number Demarcation number: FS 195)
Unaudited Annual Financial Statements for the year ended 30 June 2018

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Property rates taxation		13,600,760	11,870,853
Sale of goods and services		24,758,318	31,794,485
Grants		172,201,177	131,647,217
Interest income		9,668,702	9,493,999
		220,228,957	184,806,554
Payments			
Employee costs		(64,984,102)	(61,109,769)
Suppliers		(73,528,018)	(26,584,500)
Finance costs		(22,855,960)	(30,267,720)
		(161,368,080)	(117,961,989)
Net cash flows from operating activities	38	**58,860,877**	**66,844,565**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(92,458,769)	(65,091,798)
Proceeds from sale of property, plant and equipment	4	40,671,888	-
Proceeds from sale of financial assets		11,530	3,366
Net cash flows from investing activities		**(51,775,351)**	**(65,088,432)**
Cash flows from financing activities			
Repayment of other financial liabilities		(385,274)	(1,045,032)
Net cash flows from financing activities		**(385,274)**	**(1,045,032)**
Net increase/(decrease) in cash and cash equivalents		**6,700,252**	**711,101**
Cash and cash equivalents at the beginning of the year		1,182,093	470,992
Cash and cash equivalents at the end of the year	13	**7,882,345**	**1,182,093**

* See Note 43

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	38,600,000	(5,089,000)	**33,511,000**	34,175,390	**664,390**	Please refer below for reasons.
Rental of facilities and equipment	4,756,000	(2,322,000)	**2,434,000**	1,290,307	**(1,143,693)**	Please refer below for reasons.
Licences and permits	27,000	(4,000)	**23,000**	-	**(23,000)**	Please refer below for reasons.
Other income - (rollup)	1,909,000	(945,000)	**964,000**	459,849	**(504,151)**	Please refer below for reasons.
Interest received - investment	6,116,000	2,881,000	**8,997,000**	9,668,702	**671,702**	Please refer below for reasons.
Total revenue from exchange transactions	**51,408,000**	**(5,479,000)**	**45,929,000**	**45,594,248**	**(334,752)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	12,628,000	(59,000)	**12,569,000**	13,600,760	**1,031,760**	Please refer below for reasons.
Transfer revenue						
Government grants & subsidies	64,948,000	3,300,000	**68,248,000**	162,511,024	**94,263,024**	Please refer below for reasons.
Public contributions and donations	-	-	**-**	3,275,980	**3,275,980**	Please refer below for reasons.
Fines, Penalties and Forfeits	54,000	-	**54,000**	48,600	**(5,400)**	Please refer below for reasons.
Total revenue from non-exchange transactions	**77,630,000**	**3,241,000**	**80,871,000**	**179,436,364**	**98,565,364**	
Total revenue	**129,038,000**	**(2,238,000)**	**126,800,000**	**225,030,612**	**98,230,612**	
Expenditure						
Personnel	(61,732,000)	7,694,000	**(54,038,000)**	(59,010,458)	**(4,972,458)**	Please refer below for reasons.
Remuneration of councillors	(5,723,000)	-	**(5,723,000)**	(6,010,973)	**(287,973)**	Please refer below for reasons.

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Depreciation and amortisation	(4,460,000)	1,000,000	**(3,460,000)**	(16,857,180)	**(13,397,180)**	Please refer below for reasons.
Impairment loss/ Reversal of impairments	-	-	**-**	(48,600)	**(48,600)**	Please refer below for reasons.
Finance costs	(2,388,000)	(4,956,000)	**(7,344,000)**	(22,855,960)	**(15,511,960)**	Please refer below for reasons.
Debt Impairment	(5,113,000)	1,000,000	**(4,113,000)**	(29,840,737)	**(25,727,737)**	Please refer below for reasons.
Bad debts written off	-	-	**-**	(1,389,045)	**(1,389,045)**	Please refer below for reasons.
Bulk purchases	(18,200,000)	(1,150,000)	**(19,350,000)**	(29,567,775)	**(10,217,775)**	Please refer below for reasons.
Contracted Services	(2,382,000)	(830,000)	**(3,212,000)**	(6,314,694)	**(3,102,694)**	Please refer below for reasons.
General Expenses	(28,964,000)	(542,000)	**(29,506,000)**	(19,491,230)	**10,014,770**	Please refer below for reasons.
Total expenditure	**(128,962,000)**	**2,216,000**	**(126,746,000)**	**(191,386,652)**	**(64,640,652)**	
Operating surplus	**76,000**	**(22,000)**	**54,000**	**33,643,960**	**33,589,960**	
Gain on disposal of assets and liabilities	-	-	**-**	40,671,888	**40,671,888**	Please refer below for reasons.
Surplus before taxation	**76,000**	**(22,000)**	**54,000**	**74,315,848**	**74,261,848**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**76,000**	**(22,000)**	**54,000**	**74,315,848**	**74,261,848**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	572,000	-	**572,000**	938,288	**366,288**	Please refer below for reasons.
Other financial assets	-	-	**-**	5,384	**5,384**	Please refer below for reasons.
Receivables from exchange transactions	186,000,000	-	**186,000,000**	574,932	**(185,425,068)**	Please refer below for reasons.
Receivables from non-exchange transactions	-	-	**-**	2,417,449	**2,417,449**	Please refer below for reasons.
VAT receivable	-	-	**-**	10,476,829	**10,476,829**	Please refer below for reasons.
Cash and cash equivalents	(147,000)	-	**(147,000)**	7,882,345	**8,029,345**	Please refer below for reasons.
	186,425,000	**-**	**186,425,000**	**22,295,227**	**(164,129,773)**	
Non-Current Assets						
Investment property	18,457,000	-	**18,457,000**	16,260,172	**(2,196,828)**	Please refer below for reasons.
Property, plant and equipment	746,559,000	7,704,000	**754,263,000**	760,376,989	**6,113,989**	Please refer below for reasons.
Heritage assets	-	-	**-**	5,761	**5,761**	Please refer below for reasons.
Other financial assets	-	-	**-**	464,542	**464,542**	Please refer below for reasons.
	765,016,000	**7,704,000**	**772,720,000**	**777,107,464**	**4,387,464**	
Total Assets	**951,441,000**	**7,704,000**	**959,145,000**	**799,402,691**	**(159,742,309)**	
Liabilities						
Current Liabilities						
Other financial liabilities	68,000	-	**68,000**	413,778	**345,778**	Please refer below for reasons.
Payables from exchange transactions	117,750,000	-	**117,750,000**	233,742,891	**115,992,891**	Please refer below for reasons.
Consumer deposits	-	-	**-**	234,469	**234,469**	Please refer below for reasons.

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Employee benefit obligation	-	-	**-**	435,205	**435,205**	Please refer below for reasons.
Unspent conditional grants and receipts	-	-	**-**	8,175,786	**8,175,786**	Please refer below for reasons.
Provisions	-	-	**-**	2,941,992	**2,941,992**	Please refer below for reasons.
	117,818,000	**-**	**117,818,000**	**245,944,121**	**128,126,121**	
Non-Current Liabilities						
Other financial liabilities	2,747,000	-	**2,747,000**	-	**(2,747,000)**	Please refer below for reasons.
Employee benefit obligation	-	-	**-**	4,757,519	**4,757,519**	Please refer below for reasons.
Provisions	30,978,000	-	**30,978,000**	37,722,937	**6,744,937**	Please refer below for reasons.
	33,725,000	**-**	**33,725,000**	**42,480,456**	**8,755,456**	
Total Liabilities	**151,543,000**	**-**	**151,543,000**	**288,424,577**	**136,881,577**	
Net Assets	**799,898,000**	**7,704,000**	**807,602,000**	**510,978,114**	**(296,623,886)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	799,898,000	7,704,000	**807,602,000**	510,978,114	**(296,623,886)**	Please refer below for reasons.

Phumelela Local Municipality

(Registration number Demarcation number: FS 195)
Unaudited Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Taxation	10,103,000	-	**10,103,000**	-	**(10,103,000)**	Please refer below for reasons.
Sale of goods and services	30,880,000	-	**30,880,000**	-	**(30,880,000)**	Please refer below for reasons.
Grants	149,402,000	3,300,000	**152,702,000**	-	**(152,702,000)**	Please refer below for reasons.
Interest income	4,937,000	-	**4,937,000**	-	**(4,937,000)**	Please refer below for reasons.
Other receipts	5,780,000	-	**5,780,000**	-	**(5,780,000)**	Please refer below for reasons.
	201,102,000	**3,300,000**	**204,402,000**	**-**	**(204,402,000)**	
Payments						
Suppliers	(114,709,000)	(3,000,000)	**(117,709,000)**	-	**117,709,000**	Please refer below for reasons.
Finance costs	(2,388,000)	-	**(2,388,000)**	-	**2,388,000**	Please refer below for reasons.
	(117,097,000)	**(3,000,000)**	**(120,097,000)**	**-**	**120,097,000**	
Net cash flows from operating activities	**84,005,000**	**300,000**	**84,305,000**	**-**	**(84,305,000)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(84,454,000)	-	**(84,454,000)**	-	**84,454,000**	Please refer below for reasons.
Cash flows from financing activities						
Net increase/(decrease) in cash and cash equivalents	(636,000)	300,000	**(336,000)**	-	**336,000**	Please refer below for reasons.
Cash and cash equivalents at the beginning of the year	489,000	-	**489,000**	-	**(489,000)**	Please refer below for reasons.
Cash and cash equivalents at the end of the year	**(147,000)**	**300,000**	**153,000**	**-**	**(153,000)**	

Phumelela Local Municipality

(Registration number Demarcation number: FS 195)
Unaudited Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

Reasons for movement

Statement of Financial Performance:

Category	Reason
Revenue	
Service Charges	This is mainly due to the municipality not billing enough revenue as anticipated due to tempering of meters and by passing of electricity.
Rental of facilities	Some of the rental contracts came to an end and were not renewed.
Licences & Permits	Less income was generated than anticipated.
Other Income	Less income was generated than anticipated.
Interest Received	This is due to the increased debtors balances and more funds being available for investment.
Property rates	This is mainly due to the municipality raising more revenue which can also be attributed to the supplementary valuations
Government grants and subsidies	This is due to the inclusion of both the operational and capital grants in the financial statements whereas these are separate on the budget.
Public contributions and donations	This is due to the contribution by NT towards the municipality's audit fees and PT assistance with the purchase of split meters as well as CoGTA for AFS preparation, which was not budgeted for.
Fines, penalties and forfeits	This is due to less people contravening the laws within the municipal boundaries.
Expenditure	
Personnel Costs	This can mainly be attributable to overtime, as well as backpay to certain employees.
Remuneration of Councillors	This is mainly due to back pays that the municipality had to implement during the financial year(upper limits)
Depreciation and amortisation	Less depreciated was provided for during the budget process.
Impairment losses/ reversal of impairment losses	No provision was made in the budget for uncollectable fines
Finance Costs	This is mainly due to the increasing Eskom debt
Debt Impairment	This is due to the slow payment rate by consumers as reflected under receivables

Phumelela Local Municipality

(Registration number Demarcation number: FS 195)
Unaudited Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

Bad debts written off	This is mainly due to the 50% discount that Council approved for debtors/ Consumers which was not initially budgeted for and the other 50% to be written off
Bulk Purchases	This is due to the distribution losses suffered on electricity distribution
Contracted Services	This is due to the variable portion of the contracted amounts which relied on what's needed at a particular time. Especially electricity - due to cable theft.
General Expenses	This is due to austerity measures introduced by the municipality which led to the curbing of expenditure on less important items.

Statement of Financial Position:

Category	**Reason**
Inventories	More inventory items were purchased than initially anticipated.
Other financial assets	This is due to the overpayment on the Absa Fleet Loan
Receivables from exchange transactions	
Receivables from non-exchange transactions	
VAT Receivables	The municipality was not anticipating a VAT Receivable during the preparation of the budget
Cash and Cash Equivalents	
Investment Property	The municipality overstated its investment property on the annual budget
Property plant and equipment	
Non-Current Assets	
Heritage Assets	No provision was made in the annual budget for heritage assets.
Other financial assets	No provision was made in the annual budget for financial assets.
Current Liabilities	
Other financial liabilities	This is due to the classification of more loans as non-current instead of current on the budget.
Payables from exchange transactions	This was not provided for in the budget.

Phumelela Local Municipality
(Registration number Demarcation number: FS 195)
Unaudited Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

Consumer deposits	This was not provided for in the budget.
Employee Benefit Obligation	This was not provided for in the budget.
Unspent Conditional grants	This was not provided for in the budget.
Provisions	This was not provided for in the budget.
Non-Current Liabilities	
Other financial liabilities	This is due to the municipality not taking up loans that were budgeted for.
Employee benefit Obligation	No provision was made for employee benefit obligation on the annual budget.
Provisions	This is due to the high increase in the provision for landfill site.

Accounting Policies

1. Presentation of Unaudited Annual Financial Statements

The unaudited annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These unaudited annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these unaudited annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These unaudited annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These unaudited annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.4 Significant judgements and sources of estimation uncertainty

In preparing the unaudited annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the unaudited annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the unaudited annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Useful lives of Property, Plant and Equipment

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Offsetting

All assets and liabilities been grossed up (i.e. not offset against each other), except where offsetting is required or permitted by a Standard of GRAP or where offsetting reflects the substance of the transaction or other event.

1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - Land	Indefinite
Property - Buildings	15 - 50 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Accounting Policies

1.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

1.6 Property, plant and equipment (continued)

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Indefinite	Indefinite
Buildings	Straight line	15 to 50 years
Leased equipment	Straight line	5 to 10 years
Plant and machinery	Straight line	5 to 10 years
Furniture and fixtures	Straight line	5 to 10 years
Motor vehicles	Straight line	5 to 10 years
IT equipment	Straight line	3 to 10 years
Infrastructure - Electricity network	Straight line	15 to 50 years
Infrastructure - Roads network	Straight line	10 to 80 years
Infrastructure - Water network	Straight line	15 to 50 years
Infrastructure - Wastewater network	Straight line	12 to 50 years

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.7 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;

(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and

(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.8 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the unaudited annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

1.8 Heritage assets (continued)

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an municipality on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an municipality’s statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:
- cash;

1.9 Financial instruments (continued)

- a residual interest of another municipality; or
- a contractual right to:
  - receive cash or another financial asset from another municipality; or
  - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an municipality after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an municipality's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an municipality.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;

Accounting Policies

1.9 Financial instruments (continued)

- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade receivables from Exchange transactions	Financial asset measured at amortised cost
Trade receivables from Non-Exchange transactions	Financial asset measured at amortised cost
Investments	Financial asset measured at amortised cost
VAT Receivable	Financial asset measured at amortised cost
Cash and Cash equivalents	Financial asset measured at fair value
Other financial assets	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from Exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
VAT Payable	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Employee benefit obligations	Financial liability measured at amortised cost
Provisions	Financial liability measured at fair value
Finance lease obligations	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the municipality reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

Accounting Policies

1.9 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.9 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

1.9 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

1.10 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and

1.10 Statutory receivables (continued)
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:
- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:
- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or

1.10 Statutory receivables (continued)

- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
  - derecognise the receivable; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.11 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.12 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.13 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.14 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

1.14 Impairment of non-cash-generating assets (continued)

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

1.14 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an “optimised” basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.14 Impairment of non-cash-generating assets (continued)

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.15 Employee benefits

Employee benefits are all forms of consideration given by an municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

1.15 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.15 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The municipality account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

1.15 Employee benefits (continued)

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the unaudited annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an municipality shall attribute benefit to periods of service under the plan’s benefit formula. However, if an employee’s service in later years will lead to a materially higher level of benefit than in earlier years, an municipality shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

1.15 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Termination benefits

The municipality recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.16 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

1.16 Provisions and contingencies (continued)

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;

1.16 Provisions and contingencies (continued)

- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Levies

A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/or regulations), other than:

- those outflows of resources that are within the scope of other Standards, and
- fines or other penalties that are imposed for breaches of the legislation.

Government refers to government, government agencies and similar bodies whether local, national or international.

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The municipality does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the municipality being economically compelled to continue to operate in that future period. The preparation of financial statements under the going concern assumption does not imply that the municipality has a present obligation to pay a levy that will be triggered by operating in a future period.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time).

If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

The municipality recognises an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

1.17 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.18 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

1.18 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.19 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.19 Revenue from non-exchange transactions (continued)

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality’s operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.20 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.21 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.22 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.23 Accounting by principals and agents

Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether a municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:
- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

1.23 Accounting by principals and agents (continued)

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

1.24 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.25 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.26 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.27 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.28 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

1.28 Budget information (continued)

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The unaudited annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the unaudited annual financial statements as the recommended disclosure when the unaudited annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Comparative information is not required.

1.29 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity’s financial statements to understand the effect of related party transactions on its unaudited annual financial statements.

1.30 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Accounting Policies

1.30 Events after reporting date (continued)

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.31 Value added tax

The municipality is registered with the SARS for VAT on the payment basis, in accordance with the Section 15(2)(a) of the Value Added Tax Act no 89 of 1991.

Revenue, expenses and assets are recognsised net of the amounts of value added tax. Value added tax is accounted for using the payment basis.

The net amount of value added tax recoverable from, or payable to the taxation authority is included as part of receivables or payables in the statement of financial position.

1.32 Grants-in aid (Expense)

The municipality annually awards grants to individuals and organisations based on merit. When making these transfers, the municipality does not
- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	01 April 2099	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2099	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2099	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2099	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2099	Unlikely there will be a material impact
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2099	Unlikely there will be a material impact
• GRAP 110: Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2019	Unlikely there will be a material impact
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2019	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
• GRAP 105: Transfers of functions between entities under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 107: Mergers	01 April 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact
• IGRAP 11: Consolidation – Special purpose entities	01 April 2019	Unlikely there will be a material impact
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2019	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact
• IGRAP 19: Liabilities to Pay Levies	01 April 2019	Unlikely there will be a material impact

Notes to the Unaudited Annual Financial Statements

2. New standards and interpretations (continued)

• GRAP 12 (as amended 2016): Inventories	01 April 2018	Unlikely there will be a material impact
• GRAP 16 (as amended 2016): Investment Property	01 April 2018	Unlikely there will be a material impact
• GRAP 17 (as amended 2016): Property, Plant and Equipment	01 April 2018	Unlikely there will be a material impact
• GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	01 April 2018	Unlikely there will be a material impact
• GRAP 26 (as amended 2016): Impairment of cash-generating assets	01 April 2018	Unlikely there will be a material impact
• GRAP 27 (as amended 2016): Agriculture	01 April 2018	Unlikely there will be a material impact
• GRAP 31 (as amended 2016): Intangible Assets	01 April 2018	Unlikely there will be a material impact
• GRAP 103 (as amended 2016): Heritage Assets	01 April 2018	Unlikely there will be a material impact
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	Unlikely there will be a material impact

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact
• IGRAP 11: Consolidation – Special purpose entities	01 April 2019	Unlikely there will be a material impact
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2019	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact

Figures in Rand	2018	2017

3. Investment property

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	36,411,510	(20,151,338)	16,260,172	36,411,510	(19,726,392)	16,685,118
Total	**36,411,510**	**(20,151,338)**	**16,260,172**	**36,411,510**	**(19,726,392)**	**16,685,118**

Reconciliation of investment property - 2018

	Opening balance	Depreciation	Total
Investment property	16,685,118	(424,946)	16,260,172
	16,685,118	**(424,946)**	**16,260,172**

Reconciliation of investment property - 2017

	Opening balance	Depreciation	Total
Investment property	17,110,064	(424,946)	16,685,118
	17,110,064	**(424,946)**	**16,685,118**

Pledged as security

None of the investment property has been pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2018	2017

4. Property, plant and equipment

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	177,735,731	-	177,735,731	177,735,731	-	177,735,731
Buildings	24,779,851	(13,386,006)	11,393,845	24,616,951	(13,280,583)	11,336,368
Plant and machinery	5,792,774	(4,155,896)	1,636,878	5,792,774	(3,692,443)	2,100,331
Motor vehicles	3,559,105	(3,006,857)	552,248	3,559,105	(2,742,559)	816,546
Office equipment	2,176,248	(1,488,506)	687,742	2,066,318	(1,317,225)	749,093
IT equipment	2,673,278	(1,436,429)	1,236,849	2,577,586	(1,209,682)	1,367,904
Infrastructure - Roads network	241,119,852	(92,955,549)	148,164,303	241,119,852	(86,066,984)	155,052,868
Infrastructure - Electricity network	10,922,940	(4,132,826)	6,790,114	10,922,940	(3,669,487)	7,253,453
Work In Progress	198,823,452	-	198,823,452	106,733,205	-	106,733,205
Leased Equipment	1,868,168	(1,868,168)	-	1,868,168	(1,774,760)	93,408
Infrastructure - Wastewater network	113,376,419	(49,569,439)	63,806,980	113,376,420	(47,251,088)	66,125,332
Infrastructure - Water network	230,862,970	(81,314,123)	149,548,847	230,862,970	(75,876,755)	154,986,215
Total	**1,013,690,788**	**(253,313,799)**	**760,376,989**	**921,232,020**	**(236,881,566)**	**684,350,454**

Notes to the Unaudited Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Transfers	Depreciation	Total
Land	177,735,731	-	-	-	177,735,731
Buildings	11,336,368	-	162,900	(105,423)	11,393,845
Plant and machinery	2,100,331	-	-	(463,453)	1,636,878
Motor vehicles	816,546	-	-	(264,298)	552,248
Office equipment	749,093	109,930	-	(171,281)	687,742
IT equipment	1,367,904	95,692	-	(226,747)	1,236,849
Infrastructure - Roads network	155,052,868	-	-	(6,888,565)	148,164,303
Infrastructure - Electricity network	7,253,453	-	-	(463,339)	6,790,114
Work In Progress	106,733,205	92,253,147	(162,900)	-	198,823,452
Leased Equipment	93,408	-	-	(93,408)	-
Infrastructure - Wastewater network	66,125,332	-	-	(2,318,352)	63,806,980
Infrastructure - Water network	154,986,215	-	-	(5,437,368)	149,548,847
	684,350,454	**92,458,769**	**-**	**(16,432,234)**	**760,376,989**

Phumelela Local Municipality

(Registration number Demarcation number: FS 195)
Unaudited Annual Financial Statements for the year ended 30 June 2018

Notes to the Unaudited Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Transfers	Depreciation	Total
Land	177,735,731	-	-	-	177,735,731
Buildings	10,805,292	-	860,895	(329,819)	11,336,368
Plant and machinery	2,679,608	-	-	(579,277)	2,100,331
Motor vehicles	1,172,457	-	-	(355,911)	816,546
Office equipment	955,724	-	-	(206,631)	749,093
IT equipment	1,332,733	275,810	-	(240,639)	1,367,904
Infrastructure - Roads network	156,590,742	-	5,095,896	(6,633,770)	155,052,868
Infrastructure - Electricity network	7,716,792	-	-	(463,339)	7,253,453
Work In Progress	47,874,008	64,815,988	(5,956,791)	-	106,733,205
Leased Equipment	280,225	-	-	(186,817)	93,408
Infrastructure - Wastewater network	68,443,681	-	-	(2,318,349)	66,125,332
Infrastructure - Water network	160,431,685	-	-	(5,445,470)	154,986,215
	636,018,678	**65,091,798**	**-**	**(16,760,022)**	**684,350,454**

Pledged as security

None of the Property, plant and equipment has been pledged as security.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2018	2017

4. Property, plant and equipment (continued)

Depreciation rates

The depreciation methods and average useful lives of property, plant and equipment have been assessed as follows:

Land	Indefinite	Indefinite
Buildings	Straight line	15 to 50 years
Plant and machinery	Straight line	5 to 10 years
Furniture and fixtures	Straight line	5 to 10 years
Motor vehicles	Straight line	5 to 10 years
IT equipment	Straight line	3 to 10 years
Infrastructure - Roads network	Straight line	10 to 80 years
Infrastructure - Electricity network	Straight line	15 to 50 years
Infrastructure - Wastewater network	Straight line	12 to 50 years
Infrastructure - Water network	Straight line	15 to 50 years

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Assets subject to finance lease (Net carrying amount)

	2018	2017
Leased Equipment	-	93,408
	-	**93,408**

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Total
Opening balance	106,733,205	106,733,205
Additions/capital expenditure	92,253,147	92,253,147
Other movements [Cost transfered to Asset alredy completed in prior year]	(162,900)	(162,900)
	198,823,452	**198,823,452**

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Total
Opening balance	47,874,008	47,874,008
Additions/capital expenditure	64,815,988	64,815,988
Transferred to completed items	(5,956,791)	(5,956,791)
	106,733,205	**106,733,205**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2018	2017

5. Heritage assets

	2018			2017		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Art Collections, antiquities and exhibits	5,761	-	5,761	5,761	-	5,761
Total	**5,761**	**-**	**5,761**	**5,761**	**-**	**5,761**

Reconciliation of heritage assets 2018

	Opening balance	**Total**
Art Collections, antiquities and exhibits	5,761	5,761

Reconciliation of heritage assets 2017

	Opening balance	**Total**
Art Collections, antiquities and exhibits	5,761	5,761

Pledged as security

None of the Heritage assets have been pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

6. Other financial assets

	2018	2017
Designated at fair value		
VKB Shares	464,542	481,456
ABSA term loan (Overpayment)	5,384	-
5 year loan, interest rate 10.60%, final payment 31 October 2017		
	469,926	**481,456**
Total other financial assets	**469,926**	**481,456**
Non-current assets		
Designated at fair value	464,542	481,456
	464,542	**481,456**
Current assets		
Designated at fair value	5,384	-
	5,384	**-**

7. Employee benefit obligations

Defined benefit plan

It is the policy of the municipality to provide retirement benefits to all its employees who elect to participate in the different available schemes. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose. The majority of employees belong to three benefit retirement funds. One fund is administered by the Provincial Pension Fund.

The last actuarial valuation was dated 30 June 2018

Post retirement medical aid plan

Components of Health Care Liabilities:
Contribution rates tables are based only on type and number of dependants, and income. As expected health care costs (or claims) tend to increase with average age, younger (in-service) members generally subsidise older (continuation) members.

Contributions-based Liability:
This is the present value of all future post-retirement health care contributions expected to become payable under the employer's health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside today to cover all expected post-retirement health care contributions (both the employer and continuation members' shares) for the current membership.

Benefits-based Liability:
This is the present value of all future post-retirement health care costs expected to become payable under the employer's health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside in today's terms to cover all expected post-retirement health care benefits payable for the current membership, ignoring what contributions may be payable.

Cross-subsidy Liability:
This is the difference between the Benefits-based Liability and the Contributions-based Liability, as defined above. It may be regarded as the amount of money in present-day terms that is expected to flow from other members of the medical scheme(s) in question, to cover the shortfall between post-retirement benefits and contributions payable. These other members are generally in-service members of the employer, and/or of other employers participating in the medical scheme(s). The liability disclosed in this report does not include any allowance for any potential Cross-subsidy Liability that may arise. The Cross-subsidy liability is not required for GRAP 25 recognition purposes.

Past-service and future-service liability:
Liabilities of an employer may be split between a past-service (or accrued) element and a future-service element. This serves to recognise the manner in which the accounting standards suggest that the liabilities be accrued uniformly over an employee's period of service. The method of accrual that has been used in this valuation is based on length of service at the valuation date relative to total potential service until the expected retirement date. For example, a 40-year-old in-service member with 15 years of service and an expected retirement age of 60 has a total potential service of 35 years. In this case, assuming that the member "earns" an equal share for each year of service, the past-service liability assumed to have accrued at the valuation date, is then 15/35 of the total liability. The future service liability is the difference between the total liability and the past-service liability. The current service cost for the following year is determined as the amount assumed to accrue to the member over the next 12 months. In this example, this amounts to 1/35 of the total liability.

Given the process described above, the liability in respect of current continuation members may be regarded as fully accrued, and is therefore not split between a past-service (or accrued) and future-service element.

It should be noted that, in cases where the employer continues to pay a health care subsidy to the widow[er] and/or children of employees who die while in service, there is a liability contingent upon the death of an employee prior to retirement. This so-called Death-in-service Liability would be regarded as a post-employment liability under the requirements of GRAP 25.

Accrued Liability:
In defining what liability the employer should focus on for accounting purposes, a sensible starting point is the value of the employer's share of the Contributions-based Liability. This is based on the subsidy policy in question, whether it is defined via contracts of employment or established practice.

7. Employee benefit obligations (continued)

Cross-subsidy Liability:
The employer's share of the Cross-subsidy Liability (as defined above) may in certain circumstances be regarded as a contingent liability of the employer, for example, should the law governing medical schemes be changed in the future to allow for age-based contribution rates. This potential liability has not been evaluated as part of this exercise.

Unfunded Accrued Liability:
This is the difference between the Accrued (or past-service) Liability and the value of any off-balance sheet assets that have been accumulated specifically by the employer to provide for its post-retirement health care liabilities.

Financial Assumptions

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate:
GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the post-employment liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 8.54% per annum has been used. The corresponding index-linked yield at this term is 2.73%. These rates do not reflect any adjustment for taxation. These rates were deduced from the interest rate data obtained from the Johannesburg Stock Exchange after the market close on 29 June 2018.

These rates were calculated by taking the fixed-interest and index-linked yields from the respective bond yield curves at the liability's duration, using an iterative process (because the yields depend on the liability, which in turn depends on the yields). The results of this process are as follows:

Component	Duration (Years)	Fixed-Interest Yield	Index-Linked Yield
Continuation members' liability	5.70	8.54%	2.73%

Health Care Cost Inflation Rate:
This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 6.67% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 5.17%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 1.75% which derives from ((1+8.54%)/(1+6.67%))-1.

The expected inflation assumption of 5.17% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (2.73%) and those of fixed interest bonds (8.54%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows:
((1+8.54%-0.50%)/(1+2.73%))-1
.
The next contribution increase was assumed to occur with effect from 1 January 2019.

7. Employee benefit obligations (continued)

Maximum Subsidy Inflation Rate:
This assumption is required to reflect estimated future changes in the maximum amount to which subsidies are limited. This maximum amount is set at R 4,218.17 for the year ending 30 June 2019. The annual increases to this maximum amount are periodically specified by the local government bargaining council.

Recent past annual increases balanced with sustainability needs of employees have resulted in this assumption being set at 75% of salary inflation.

The future salary inflation assumption of 6.17%, was set to be 1.00% above expected CPI inflation. Thus a maximum subsidy inflation assumption of 4.63% was assumed.

The next increase to the maximum subsidy was assumed to occur with effect from 1 July 2019.

Long service award liability

The Municipality offers employees LSA for every five years of service completed, from five years of service to 45 years of service, inclusive.

Completed Service (in years)	Long Service Bonuses (% of Annual Salary)	Description
5	4.0%	(5 / 250 + 2%) x annual salary
10	7.0%	(10 / 250 + 3%) x annual salary
15	10.0%	(15 / 250 + 4%) x annual salary
20	11.0%	(15 / 250 + 5%) x annual salary
25, 30, 35, 40, 45	12.0%	(15 / 250 + 6%) x annual salary

Note:
- In the month that each “Completed Service” milestone is reached, the employee is granted a LSA.
- Working days awarded are valued at 1/250th of annual salary per day.

Financial Assumptions

It is difficult to predict future investment returns and salary inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate:
GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 8.51% per annum has been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payment of long service awards, for each employee. The 8.51% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 2.73%. These rates do not reflect any adjustment for taxation. These rates were deduced from the interest rate data obtained from the JSE after the market close on 29 June 2018.

The liability-weighted average term of the total liability is 6.57 years.

Salary Inflation Rate:
This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the LSA are based on an employee’s salary at the date of the award.

The assumption is traditionally split into two components, namely General Salary Inflation and Promotional Salary Escalation. The latter is considered under demographic assumptions.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2018	2017

7. Employee benefit obligations (continued)

General Salary Inflation:
This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, earnings inflation is between 1.0% and 1.5% above CPI inflation.

The expected inflation assumption of 5.14% was obtained from the differential between market yields on index-linked bonds (2.73%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.51%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as ((1+8.51%-0.50%)/(1+2.73%))-1.

Thus, a general earnings inflation rate of 6.14% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 2.23%.

It has been assumed that the next earnings increase will take place on 1 July 2019.

Promotional Salary Scale:
The annual inflation rates below are in addition to the General Earnings Inflation assumption of 6.14% per annum for all employees.

Pre-retirement Mortality:
SA85-90 ultimate table, adjusted down for female lives.

Average Retirement Age:
The normal retirement age of employees is 65. It has been assumed that employees will retire at age 63 on average, which then implicitly allows for expected rates of ill-health and early retirement.

The amounts recognised in the statement of financial position are as follows:

	2018	2017
Carrying value		
Present value of the defined benefit obligation - Post employment benefit plan	(1,722,595)	(1,965,666)
Present value of the defined benefit obligation - Long service awards	(3,470,129)	(3,189,729)
	(5,192,724)	**(5,155,395)**

	2018	2017
Non-current liabilities	(4,757,519)	(4,496,436)
Current liabilities	(435,205)	(658,959)
	(5,192,724)	**(5,155,395)**

The present value of plan assets includes:

Changes in the present value of the defined benefit obligation are as follows:

	2018	2017
Opening balance	(5,155,395)	(5,239,621)
Actuarial gains / (losses)	75,913	223,926
Net expense recognised in the statement of financial performance	(113,242)	(139,700)
	(5,192,724)	**(5,155,395)**

Net expense recognised in the statement of financial performance

	2018	2017
Current service cost	366,357	380,010
Interest cost	405,844	416,549
Actual benefits vested	(658,959)	(656,859)
	(113,242)	**(139,700)**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2018	2017

7. Employee benefit obligations (continued)

Calculation of actuarial gains and losses

	2018	2017
Actuarial gains / (losses) – Long service awards	(46,643)	125,653
Actuarial gains / (losses) – Post employment benefit plan	122,556	98,273
	75,913	**223,926**

Key assumptions used

Assumptions used at the reporting date:

	2018	2017
Discount rates used	8.54 %	8.38 %
Health care cost inflation rate	6.67 %	6.68 %
Net discount rate - health care cost inflation	1.75 %	1.59 %
Net discount rate - maximum subsidy inflation	3.74 %	3.58 %

Sensitivity Analysis on the Accrued Liability:

ASSUMPTION	CHANGE	TOTAL	% CHANGE
Central Assumptions		1.723	
Health care inflation	+1%	1.761	+2%
	-1%	1.686	-2%
Discount Rate	+1%	1.636	-5%
	-1%	1.818	+6%
Post-retirement mortality	-1 yr	1.813	+5%

Note:
The post-retirement mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer.

The table above indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 2% higher than that shown.

PEMA Liability Reconciliation:

Opening Accrued Liability	(1,965,666)	(2,156,859)
-Current-service Cost	-	-
-Interest Cost	153,549	174,044
-Contributions (benefits paid)	(274,064)	(266,964)
Total Annual Expense	**120,515**	**92,920**
-Actuarial (Loss) / Gain	122,556	98,273
Closing Accrued Liability	**(1,722,595)**	**(1,965,666)**

LSA Liability Reconciliation:

Opening Accrued Liability	(3,189,729)	(3,082,762)
-Current-service Cost	366,357	380,010
-Interest Cost	252,295	242,505
-Contributions (benefits paid)	(384,895)	(389,895)
Total Annual Expense	**(233,757)**	**(232,620)**
-Actuarial (Loss) / Gain	(46,643)	125,653
Closing Accrued Liability	**(3,470,129)**	**(3,189,729)**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2018	2017

8. Inventories

Consumable stores	891,504	528,671
Water	46,784	47,586
	938,288	**576,257**

Carrying value of inventories carried at fair value less costs to sell	938,288	576,257

9. Receivables from exchange transactions

Trade debtors	574,932	303,553
Consumer debtors - Electricity	842,824	(3,171)
Consumer debtors - Water	4,217,085	2,170,649
Consumer debtors - Sewerage	3,765,444	1,636,629
Consumer debtors - Refuse	2,274,312	872,825
Consumer debtors - Sale of Stands	2,624	453
Consumer debtors - Housing Rental	44,822	6,422
Consumer debtors - Other	87,563	10,542
	11,809,606	**4,997,902**

Trade and other receivables pledged as security

There are no Receivables from exchange transactions pleged as security for overdraft facilities.

Please refer to Note 12 for detailed disclosure of the ageing and net consumer disclosure.

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Trade receivables

Counterparties with external credit rating (Moody's)		
Baa3	11,809,606	5,250,492
	11,809,606	**5,250,492**

Fair value of trade and other receivables

Trade and other receivables	11,809,606	5,250,492

Trade and other receivables impaired

As of 30 June 2018, trade and other receivables of R - (2017: R -) were impaired and provided for.

The amount of the provision was R (186,662,164) as of 30 June 2018 (2017: R -).

The ageing of these loans is as follows:

Reconciliation of provision for impairment of trade and other receivables

Opening balance	(246,383)	(246,383)
	(246,383)	**(246,383)**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2018	2017

10. Receivables from non-exchange transactions

Fines	39,992	39,992
Consumer debtors - Rates	2,377,457	567,244
	2,417,449	**607,236**

Receivables from non-exchange transactions pledged as security

There are no Receivables from non-exchange transactions pleged as security for overdraft facilities.

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Receivables from non-exchange transactions

Counterparties with external credit rating (Moody's)		
Baa3	2,417,449	607,236
	2,417,449	**607,236**

Please refer to Note 12 for detailed disclosure of the ageing and net consumer disclosure.

Fair value of receivables from non-exchange transactions

Other receivables from non-exchange transactions	2,417,449	607,236

Receivables from non-exchange transactions impaired

As of 30 June 2018, other receivables from non-exchange transactions were impaired and provided for.

The amount of the provision was R 48,600 as of 30 June 2018 (2017: R 103,166).

Details of the impairment:

Traffic fines impairment	48,600	103,166

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	249,489	146,323
Provision for impairment	48,600	103,166
	298,089	**249,489**

11. VAT receivable

VAT	10,476,829	6,121,305
	10,476,829	**6,121,305**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2018	2017

12. Consumer debtors disclosure

Gross balances		
Consumer debtors - Rates	30,970,580	24,774,006
Consumer debtors - Electricity	5,002,473	4,767,692
Consumer debtors - Water	60,713,208	51,511,357
Consumer debtors - Sewerage	63,710,728	53,219,731
Consumer debtors - Refuse	64,579,459	54,206,413
Consumer debtors - Sale of Stands	58,956	60,536
Consumer debtors - Housing Rental	3,268,189	1,944,077
Consumer debtors - Other	563,825	180,052
	228,867,418	**190,663,864**
Less: Allowance for impairment		
Consumer debtors - Rates	(28,593,123)	(24,206,762)
Consumer debtors - Electricity	(4,159,649)	(4,770,863)
Consumer debtors - Water	(56,496,123)	(49,340,708)
Consumer debtors - Sewerage	(59,945,284)	(51,583,102)
Consumer debtors - Refuse	(62,305,147)	(53,333,588)
Consumer debtors - Sale of Stands	(56,332)	(60,083)
Consumer debtors - Housing Rental	(3,223,367)	(1,937,655)
Consumer debtors - Other	(476,262)	(169,510)
	(215,255,287)	**(185,402,271)**
Net balance		
Consumer debtors - Rates	2,377,457	567,244
Consumer debtors - Electricity	842,824	(3,171)
Consumer debtors - Water	4,217,085	2,170,649
Consumer debtors - Sewerage	3,765,444	1,636,629
Consumer debtors - Refuse	2,274,312	872,825
Consumer debtors - Sale of Stands	2,624	453
Consumer debtors - Housing Rental	44,822	6,422
Consumer debtors - Other	87,563	10,542
	13,612,131	**5,261,593**
Included in above is receivables from exchange transactions		
Consumer debtors - Electricity	842,824	(3,171)
Consumer debtors - Water	4,217,085	2,170,649
Consumer debtors - Sewerage	3,765,444	1,636,629
Consumer debtors - Refuse	2,274,312	872,825
Consumer debtors - Other	87,563	10,542
Consumer debtors - Sale of Stands	2,624	1,163
Consumer debtors - Housing Rental	44,822	6,422
	11,234,674	**4,695,059**
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Consumer debtors - Rates	2,377,457	567,244
	2,377,457	**567,244**
Net balance	**13,612,131**	**5,262,303**

Figures in Rand	2018	2017

12. Consumer debtors disclosure (continued)

Consumer debtors - Rates		
Current (0 -30 days)	537,361	427,238
31 - 60 days	428,664	305,803
61 - 90 days	383,266	395,924
91 - 120 days	370,710	20,114,606
121 - 365 days	29,250,578	3,530,435
Less: Provision for impairment	(28,593,122)	(24,206,762)
	2,377,457	**567,244**

Consumer debtors - Electricity		
Current (0 -30 days)	40,839	314,163
31 - 60 days	43,145	75,397
61 - 90 days	34,364	46,035
91 - 120 days	37,593	3,426,101
121 - 365 days	4,846,533	905,996
Less: Provision for impairment	(4,159,650)	(4,770,863)
	842,824	**(3,171)**

Consumer debtors - Water		
Current (0 -30 days)	762,201	1,019,716
31 - 60 days	762,059	648,544
61 - 90 days	665,320	729,903
91 - 120 days	671,561	39,262,722
121 - 365 days	57,852,068	9,850,472
Less: Provision for impairment	(56,496,124)	(49,340,708)
	4,217,085	**2,170,649**

Consumer debtors - Sewerage		
Current (0 -30 days)	950,933	729,629
31 - 60 days	844,466	553,475
61 - 90 days	804,310	559,164
91 - 120 days	769,423	40,246,370
121 - 365 days	60,341,595	11,131,093
Less: Provision for impairment	(59,945,283)	(51,583,102)
	3,765,444	**1,636,629**

Consumer debtors - Refuse		
Current (0 -30 days)	913,173	661,946
31 - 60 days	819,221	524,545
61 - 90 days	781,503	528,636
91 - 120 days	755,564	529,415
121 - 365 days	61,309,998	51,961,871
Less: Provision for impairment	(62,305,147)	(53,333,588)
	2,274,312	**872,825**

Consumer debtors - Sale of Stands		
121 - 365 days	58,956	61,246
Less: Provision for impairment	(56,332)	(60,793)
	2,624	**453**

Figures in Rand	2018	2017

12. Consumer debtors disclosure (continued)

Consumer debtors - Housing Rental

Current (0 -30 days)	19,820	17,519
31 - 60 days	19,682	17,178
61 - 90 days	504,911	500,293
91 - 120 days	21,597	1,262,136
121 - 365 days	2,702,179	146,951
Less: Provision for impairment	(3,223,367)	(1,937,655)
	44,822	**6,422**

Consumer debtors - Other

Current (0 -30 days)	23,768	16,764
31 - 60 days	23,000	3,178
61 - 90 days	14,499	4,256
91 - 120 days	15,490	148,958
121 - 365 days	487,068	6,896
Less: Provision for impairment	(476,262)	(169,510)
	87,563	**10,542**

Reconciliation of allowance for impairment

Balance at beginning of the year	(185,402,271)	(150,723,417)
Contributions to allowance	(29,853,017)	(34,678,854)
	(215,255,288)	**(185,402,271)**

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	38,800	38,800
Bank balances	7,843,545	1,143,293
	7,882,345	**1,182,093**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Credit rating

Baa3	7,882,345	1,143,293
	7,882,345	**1,143,293**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
ABSA Bank - Current Account	337,729	988,914	399,373	337,729	989,759	399,373
ABSA - Grants Call Account	7,423,925	52,089	4,877	7,423,925	52,087	4,877
ABSA Bank - Call Account	11,064	12,587	4,354	11,064	12,587	4,354
First National Bank - 7 Day	4,481	4,481	4,481	4,481	4,481	4,481
First National Bank - Interest Plus	66,346	84,378	19,107	66,346	84,378	19,107
Total	**7,843,545**	**1,142,449**	**432,192**	**7,843,545**	**1,143,292**	**432,192**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2018	2017

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	7,160,895	-
Water Service Infrastructure Grant	836,472	-
Expanded Public Works Programme Grant	178,419	-
	8,175,786	**-**

Movement during the year

Balance at the beginning of the year	-	1,752,431
Additions during the year	170,643,717	127,415,501
Income recognition during the year	(162,467,931)	(127,415,501)
Unspent INEP portion deducted from Equitable share in 2017	-	(1,752,431)
	8,175,786	**-**

See note 25 for reconciliation of grants from National/Provincial Government.

15. Other financial liabilities

Designated at fair value		
DBSA Loan - 11193	413,778	497,766
20 year loan, interest rate 17%, redemption date 30 September 2019		
ABSA term loan	-	301,286
5 year loan, interest rate 10.60%, final payment 31 October 2017		
	413,778	**799,052**

Non-current liabilities		
Designated at fair value	-	326,009
	-	**326,009**

Current liabilities		
Designated at fair value	413,778	473,043
	413,778	**473,043**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2018	2017

16. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Change in discount factor	Interest charged for the year	Total
Environmental rehabilitation	74,870,134	(40,671,888)	6,466,683	40,664,929

Reconciliation of provisions - 2017

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	57,492,279	17,377,855	74,870,134

	2018	2017
Non-current liabilities	37,722,937	66,050,499
Current liabilities	2,941,992	8,819,635
	40,664,929	**74,870,134**

Restructuring provision

There are three existing waste disposal sites, one in each town of Vrede, Memel and Warden. The sites have to be closed due to them being unsuitable sites for waste disposal. A provision has been recognised to account for the closure cost estimate for the sites in question.

Environmental rehabilitation provision

The municipality has a present obligation to ensure rehabilitation of the land fill sites used after the economic life of the landfill site has been fully utilised.

Introduction

ESS has developed a General Landfill Closure Costing Model (GLCCM) to estimate the final rehabilitation and closure costs for general landfills. The GLCCM is being updated in cooperation with Jones and Wagener Consulting Civil Engineers (Pty) Ltd, a company that is actively involved in rehabilitation and closure of landfill sites. The GLCCM standardises the determination of landfill closure costs between different landfills and for the same landfill over time. The GLCCM is based on the Minimum Requirements for Waste Disposal by Landfill of the Department of Water Affairs (1998), as amended by more recent regulations. The GLCCM provides a reliable best possible estimate of closure costs in terms of paragraph .49 of GRAP 19 or paragraph 36 of IAS 37.

The liability calculated using the GLCCM includes costs associated with:

• Pre-closure planning and approvals (four cost elements)
• Final rehabilitation and closure (seven cost elements)
• 30 years post-closure monitoring (seven costs elements)

Landfill closure and rehabilitation

Landfill operations continue until all the available permitted airspace has been filled. Once this happens, the site close and capped with a layer of impermeable clay and a layer of the top soil. Grass and other suitable vegetation types are planted to stabilize the soil and improve the appearance. Environmental monitoring continues for a period of up to 30 years after the closure of the site. No appointment for the closure of the sites has been made, and therefore only rough estimates have been compiled without site visits with no detailed inspections or investigations. Basic information on the size and classification of each site was supplied.

16. Provisions (continued)

Financial Assumption and estimates:

Unit Costs:
Unit costs for each of the cost elements are obtained annually by means of a commercial quotation. Details of this are provided separately.

CPI:
The CPI2 is used for determining the future value of current costs in the year when the cost is projected to be incurred. The CPI figure used in the GLCCM is based on the three-month average CPI for the quarter that includes the financial year-end date. The average of the CPI for the last quarter amounted to 4.4805%.

Discount Rate:
GRAP 19 states that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In view of the long operational life of landfills, the time value of money is considered material. GRAP 19 prescribes that the discount rate shall be the pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. Normally corporate bond rates are used to determine the discount rate. In line with GRAP 25 Defined benefit plans, government bond rates may also be used to determine the discount rate. The liability for this purpose is in most cases determined for a government entity (municipality). Therefore, government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond rates to determine the discount rate. The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used.

The rate most consistent with the remaining life of the landfills published at the end of the quarter that includes the financial year-end date was used.

• For landfills with an expected remaining life of three years or less, the rate associated with a maximum period of 3 years is used.
• For landfills with an expected remaining life of four of five years, the rate associated with a maximum period of 5 years is used.
• For landfills with an expected remaining life of more than five years, the rate associated with a maximum period of 10 years is used.

Calculation of closure costs:

Key financial assumptions used

Assumptions	**2017-2018**
CPI	4.4805%
Discount rate	7.2305%
Net effective discount rate	2.7500%

Cost elements considered in the calculation of closure costs:

1. Planning for closure
1.1 Permit application for operation to closure
1.2 Basic assessment for closure
1.3 Finalise end-use plan
1.4 Closure design

2. Rehabilitation and closure
2.1 Clearing, shaping and compacting
2.2 Capping
2.3 Top-soiling and vegetating
2.4 Storm water control system
2.5 Leachate seepage control system
2.6 Passive gas control system
2.7 Fencing

Figures in Rand	2018	2017

16. Provisions (continued)

3. Post-closure monitoring and maintenance
3.1 Water monitoring
3.2 Gas monitoring
3.3 Rehabilitation monitoring
3.4 Maintenance of cover, subsidence and drainage
3.5 Fire control and vegetation maintenance
3.6 On-going leachate management
3.7 Passive gas management

The lifespan of the sites and the estimated closing dates are as follows:

Vrede - The current expected remaining life of the landfill is estimated at 2 years. This is based on a management estimate. The current expected remaining life of the landfill is not one year less than last year because the municipality decided to operate for another 2 years.

Memel - The current expected remaining life of the landfill is estimated at 15 years. This is based on a management estimate. The current expected remaining life of the landfill is not one year less than last year because new management practices were implemented which extended the life of the landfill.

Warden -The current expected remaining life of the landfill is estimated at 15 years. This is based on a management estimate. The current expected remaining life of the landfill is not one year less than last year because new cells were created to take more waste.

17. Payables from exchange transactions

13th cheque accrual	1,662,768	1,603,179
Accrued leave pay	4,686,042	4,443,874
Accrued salary expense	64,361	49,585
Debtors in credit	2,435,299	1,236,542
Deposits received	68,628	62,100
Retentions	19,191,240	11,025,232
Trade payables	195,852,934	159,471,522
Unallocated receipts and deposits	9,781,624	8,155,051
	233,742,896	**186,047,085**

Fair value of trade and other payables

Trade payables	233,742,896	186,047,085
	233,742,896	**186,047,085**

18. Consumer deposits

Rates	234,469	238,982
	234,469	**238,982**

Phumelela Local Municipality
(Registration number Demarcation number: FS 195)
Unaudited Annual Financial Statements for the year ended 30 June 2018

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2018	2017

19. Revenue

Fines	48,600	239,380
Government grants & subsidies	162,511,024	127,415,501
Interest received - investment	9,668,702	9,493,999
Other income	459,849	441,264
Property rates	13,600,760	11,870,853
Public contributions and donations	3,275,980	4,470,006
Rental of facilities and equipment	1,290,307	391,518
Service charges	34,175,390	30,855,009
	225,030,612	**185,177,530**

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	34,175,390	30,855,009
Rental of facilities and equipment	1,290,307	391,518
Other income	459,849	441,264
Interest received - investment	9,668,702	9,493,999
	45,594,248	**41,181,790**

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	13,600,760	11,870,853
Transfer revenue		
Government grants & subsidies	162,511,024	127,415,501
Public contributions and donations	3,275,980	4,470,006
Fines	48,600	239,380
	179,436,364	**143,995,740**

Basis on which fair value of inflowing resources was measured

Transfers

Fines

Fines issued in terms of the Criminal Procedures Act are usually issued by way of notice to offenders, and can (a) indicate the value of the fine to be paid, and that certain reductions could be made to the value of the fine payable and how, or the circumstances under which, such reductions can be applied, or (b) indicate that the offender must appear in Court on a specified date (in these instances, the value of the fine may or may not be indicated but this is often only determined after a separate legal process). In 2012, the ASB revised IGRAP 1 Applying the Probability Test on the Initial Recognition of Revenue to include revenue from non-exchange transactions. This amendment is applicable to municipalities from 1 July 2013. IGRAP 1 indicates that entities should not consider the probability of non-payment on the initial recognition of revenue. This should be considered as a subsequent event when assessing impairment.

Phumelela Local Municipality
(Registration number Demarcation number: FS 195)
Unaudited Annual Financial Statements for the year ended 30 June 2018

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2018	2017

20. Service charges

Refuse removal	10,096,785	6,662,455
Sale of electricity	4,031,263	7,764,643
Sale of water	9,577,194	9,275,763
Sewerage and sanitation charges	10,470,148	7,152,148
	34,175,390	**30,855,009**

21. Rental of facilities and equipment

Premises		
Own Premises	1,290,307	391,518
	1,290,307	**391,518**
	1,290,307	**391,518**

22. Other income

Building Fees	15,593	24,574
Cemetery Fees	112,852	139,103
Clearance certificate	24,277	27,994
Collecting Fees	82,525	83,266
Connection Fees	4,367	27,951
Sale of stands	800	3,760
Sundry income	153,635	38,716
Tender deposits	65,800	95,900
	459,849	**441,264**

23. Investment revenue

Interest revenue		
Bank	453,988	221,832
Interest charged on trade and other receivables	9,214,714	9,272,167
	9,668,702	**9,493,999**

Phumelela Local Municipality
(Registration number Demarcation number: FS 195)
Unaudited Annual Financial Statements for the year ended 30 June 2018

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2018	2017

24. Property rates

Rates received

Property rates	13,600,760	11,870,853
	13,600,760	**11,870,853**

Valuations

Commercial	149,513,820	149,513,820
Institutional and Other	115,529,000	115,529,000
Municipal	5,633,000	5,633,000
Residential	1,228,974,354	1,228,974,354
Small holdings and farms	6,194,281,806	6,194,281,806
State	73,100,494	73,100,494
	7,767,032,474	**7,767,032,474**

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate is applied to property valuations to determine assessment rates. Rebates of R45,000 is granted to residential and state property owners.

Figures in Rand	2018	2017

25. Government grants and subsidies

Operating grants		
Equitable share	61,603,000	59,830,431
Expanded Public Works Programme Grant	821,581	1,000,000
Financial Management Grant	2,345,000	2,010,000
Water Service Infrastructure Grant	9,163,528	-
LG Seta Grant	43,093	94,335
	73,976,202	**62,934,766**
Capital grants		
Dept of Water & Sanitation (DWA & RBIG)	54,541,717	44,390,735
Municipal Infrastructure Grant	33,993,105	20,090,000
	88,534,822	**64,480,735**
	162,511,024	**127,415,501**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	109,040,717	67,585,070
Unconditional grants received	61,603,000	59,830,431
	170,643,717	**127,415,501**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members and the day to day running of the municipality.

Unspent Integrated National Electrification Grant portion deducted from Equitable share in 2017.

Dept of Water & Sanitation (DWA & RBIG)

Current-year receipts	54,541,717	44,390,735
Conditions met - transferred to revenue	(54,541,717)	(44,390,735)
	-	**-**

Expanded Public Works Programme Grant

Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(821,581)	(1,000,000)
	178,419	**-**

Municipal Infrastructure Grant

Current-year receipts	41,154,000	20,090,000
Conditions met - transferred to revenue	(33,993,105)	(20,090,000)
	7,160,895	**-**

Application for Rollover has been applied for the amount of R 7,160,895.00.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2018	2017

25. Government grants and subsidies (continued)

Water Service Infrastructure Grant

Current-year receipts	10,000,000	-
Conditions met - transferred to revenue	(9,163,528)	-
	836,472	**-**

Financial Management Grant

Current-year receipts	2,345,000	2,010,000
Conditions met - transferred to revenue	(2,345,000)	(2,010,000)
	-	**-**

Integrated National Electrification Grant

Balance unspent at beginning of year	-	1,752,431
Unspent INEP portion deducted from Equitable share in 2017	-	(1,752,431)
	-	**-**

Unspent Integrated National Electrification Grant portion deducted from Equitable share in 2017.

26. Public contributions and donations

Provincial Treasury contributions	1,775,980	2,000,000
Social Investment Contribution	1,500,000	2,470,006
	3,275,980	**4,470,006**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2018	2017

27. Employee related costs

13th Cheques	2,885,619	2,709,921
Acting allowances	1,102,743	829,543
Basic	35,442,606	32,677,237
Car allowance	1,455,925	1,424,356
Employee benefit obligation	37,329	(84,226)
Housing benefits and allowances	682,134	664,474
Leave pay provision charge	452,252	1,183,440
Long-service awards	178,447	207,682
Medical aid - employer contributions	2,184,290	1,890,929
Occupational allowance	418,968	354,632
Other payroll levies	6,049,224	5,623,880
Other payroll levies	35,727	32,037
Overtime payments	4,774,112	3,916,559
SDL	473,752	424,432
Standby Allowance	345,464	320,041
UIF	410,168	375,383
	56,928,760	**52,550,320**

Remuneration of Municipal Manager

Annual Remuneration	470,927	570,285
Car Allowance	308,869	381,024
Contributions to UIF, Medical and Pension Funds	91,400	10,002
	871,196	**961,311**

Council have appointed NF Malatjie as Accounting Officer effectiive 1 August 2017.

Remuneration of Chief Finance Officer

Annual Remuneration	680,568	667,792
Car Allowance	188,681	196,560
Contributions to UIF, Medical and Pension Funds	113,297	126,215
	982,546	**990,567**

SA Nyapholi resigned on 28 March 2018 as Chief Finacial Officer

NF Ralebenya Appointed as Acting Chief Finacial Officer on 29 March 2018

Remuneration of Director Corporate Services

Annual Remuneration	593,297	751,032
Car Allowance	200,456	361,179
Contributions to UIF, Medical and Pension Funds	81,199	129,006
	874,952	**1,241,217**

NF Malatjie Appointed as Acting Municipal Manager on 01 September 2017

S Mahlangu Appointed as Acting Director Corporate Services on 01 September 2017

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2018	2017

27. Employee related costs (continued)

Remuneration of Director Technical Services

Annual Remuneration	673,043	-
Car Allowance	121,267	-
Contributions to UIF, Medical and Pension Funds	57,932	-
	852,242	**-**

LH Mthembu Appointed as Acting Director Technical Services on 01 July 2017 – 30 April 2018

NP Cindi Appointed as Acting Director Technical Services on 01 May 2018

28. Remuneration of councillors

Executive Major	844,781	788,317
Speaker	683,784	635,085
Councillors	4,007,408	3,527,638
Ward Commitees	475,000	331,088
	6,010,973	**5,282,128**

29. Depreciation and amortisation

Property, plant and equipment	16,432,234	16,760,023
Investment property	424,946	424,946
	16,857,180	**17,184,969**

30. Impairment of assets

Impairments		
Other receivables from non-exchange revenue	48,600	103,166
An amendedment to IGRAP 1, require the Phumelela Local Municipality to account for Traffic Fine Income on the accrual basis. The Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers) (GRAP 23), requires that revenue is recognised when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured. IGRAP 1 clarifies that an entity should recognise the full amount of revenue at the transaction date when there is uncertainty about the entity's ability to collect such revenue based on past history, as the entity has an obligation to collect all revenue due to it. Entities should not consider or assess the probability of collecting revenue at the transaction date because this is a subsequent measurement event. Subsequent to initial recognition and measurement, an entity should assess the collectability of the revenue and recognise an impairment loss where appropriate. The municipality therefore accounted for each fine issued on the accural basis, however the probabilty was assessed and it was found that the current year cash received from fines related to less than 43% of fines issued. Therefore the receivable created was impaired with 58% of the remain debtor.		
Total impairment losses (recognised) reversed	**48,600**	**103,166**

Phumelela Local Municipality

(Registration number Demarcation number: FS 195)
Unaudited Annual Financial Statements for the year ended 30 June 2018

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2018	2017

31. Finance costs

ABSA term loan	2,551	96,058
DBSA loan	48,058	112,470
Interest Cost - Landfill site provision	6,466,683	17,377,855
Trade and other payables	16,338,668	12,681,337
	22,855,960	**30,267,720**

32. Debt impairment

Contributions to debt impairment provision	29,840,737	35,451,633
	29,840,737	**35,451,633**

33. Bulk purchases

Electricity	25,537,996	23,940,126
Water	4,029,779	6,602,940
	29,567,775	**30,543,066**

34. Contracted services

Specialist Services	3,582,536	4,891,201
Other Contractors	2,732,158	3,070,767
	6,314,694	**7,961,968**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2018	2017

35. General expenses

Advertising	235,330	207,822
Auditors remuneration	(1,549,729)	2,798,532
Bank charges	349,323	400,081
Chemicals	1,367,722	1,510,804
Community development and training	1,074,579	1,182,378
Conferences and seminars	251,429	247,509
Consumables	263,974	217,629
Entertainment	101,824	54,817
Fuel and oil	1,362,944	1,073,238
IT expenses	330,500	-
Insurance	392,845	424,827
Magazines, books and periodicals	-	9,820
Medical expenses	1,916	4,096
Motor vehicle expenses	-	35,403
Operational grant expenditure	2,788,322	2,385,185
Other expenses	-	48,327
Postage and courier	132,625	147,802
Printing and stationery	290,194	665,187
Protective clothing	208,017	211,599
Refuse	685,500	454,703
Rental of equipment	1,146,272	1,238,369
Repairs and maintenance	3,441,688	5,668,276
Royalties and license fees	3,693	2,744
Social investment expenditure	1,349,580	192,185
Subscriptions and membership fees	647,320	(19,646)
Telephone and fax	2,007,176	2,120,299
Training	67,973	483,761
Travel - local	2,530,234	2,625,517
Vehicle licensing	9,979	216,966
	19,491,230	**24,608,230**

36. Auditors' remuneration

Fees	(1,549,729)	2,798,532
	(1,549,729)	**2,798,532**

37. Operating surplus/(deficit)

Operating surplus/(deficit) for the year is stated after accounting for the following:

Operating lease charges		
Motor vehicles		
• Contractual amounts	-	257,155
Depreciation on investment property	424,946	424,946
Depreciation on property, plant and equipment	16,432,234	16,760,023
Employee costs	65,021,431	61,025,543
Change in discount factor used	40,671,888	-
Impairment of other receivables from non-exchange transactions	48,600	103,166

Figures in Rand	2018	2017

38. Cash generated from operations

Surplus (deficit)	74,315,848	(23,019,111)
Adjustments for:		
Depreciation and amortisation	16,857,180	17,184,969
Loss on sale of assets and liabilities	(40,671,888)	-
Impairment deficit	48,600	103,166
Debt impairment	29,840,737	35,451,633
Bad debts written off	1,389,045	676,013
Movements in retirement benefit assets and liabilities	37,329	(84,226)
Movements in provisions	(34,205,205)	17,377,855
Impairment non cash	-	(103,166)
Changes in working capital:		
Inventories	(362,031)	515,440
Receivables from exchange transactions	(6,811,704)	6,227,999
Consumer debtors	(29,840,737)	(35,451,633)
Other receivables from non-exchange transactions	(1,858,813)	1,171,595
Payables from exchange transactions	46,306,767	57,875,202
VAT	(4,355,524)	(9,327,453)
Unspent conditional grants and receipts	8,175,786	(1,752,431)
Consumer deposits	(4,513)	(1,287)
	58,860,877	**66,844,565**

39. Financial instruments disclosure

Categories of financial instruments

2018

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	-	464,542	464,542
Trade and other receivables from exchange transactions	-	11,809,606	11,809,606
Other receivables from non-exchange transactions	-	2,417,449	2,417,449
Cash and cash equivalents	7,882,345	-	7,882,345
	7,882,345	**14,691,597**	**22,573,942**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	413,778	413,778
Trade and other payables from exchange transactions	233,742,896	233,742,896
Consumer deposits	234,469	234,469
Unspent conditional grants and receipts	8,175,786	8,175,786
	242,566,929	**242,566,929**

2017

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	-	481,456	481,456
Trade and other receivables from exchange transactions	-	4,997,902	4,997,902

Notes to the Unaudited Annual Financial Statements

Figures in Rand		2018	2017

39. Financial instruments disclosure (continued)

Other receivables from non-exchange transactions	-	607,236	607,236
Cash and cash equivalents	1,182,093	-	1,182,093
	1,182,093	**6,086,594**	**7,268,687**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	473,043	473,043
Trade and other payables from exchange transactions	186,047,085	186,047,085
Consumer deposits	238,982	238,982
	186,759,110	**186,759,110**

40. Commitments

Authorised capital expenditure

	2018	2017
Already contracted for but not provided for		
• Property, plant and equipment	7,625,543	51,489,584
	7,625,543	**51,489,584**

	2018	2017
Total capital commitments		
Already contracted for but not provided for	7,625,543	51,489,584
	7,625,543	**51,489,584**

Total commitments

	2018	2017
Total commitments		
Authorised capital expenditure	7,625,543	51,489,584
	7,625,543	**51,489,584**

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

41. Contingencies

The following case have been reported but not yet confirmed.

Wessels and 3 Others // Phemelela - Damages arising from fire as landfill site.

Please be advised that matter per our instruction was defended on behalf of the Defendant in the above matter in the High Court, Bloemfontein, on Thursday, 11th February 2016, and that the Court eventually made the following order as submitted by our defense:

Recently the matter was enrolled by the applicant despite the December court order on the basis that the applicant still feel that there is a non compliance irrespective of our previous undertaking.This is a matter of argument we have to put before the court on the return date.We had per your latest instructions appeared before the judge on Rule 37(8) and the matter has been enrolled for three days full argument early next year. We will ventilate it fully in this allocated dates to show that the application is vexatious and flivorous.

Phumelela Local Municipality

(Registration number Demarcation number: FS 195)
Unaudited Annual Financial Statements for the year ended 30 June 2018

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2018	2017

42. Related parties

Relationships

Accounting Officer	NF Malatjie
Members of key management	Executive Mayor - Cllr. TJ Motaung Speaker - Cllr. STR Zwane Cllr. B Mthombeni Cllr. BV Khumalo Cllr. KA Sibeko Cllr. MB Mhlambi Cllr. MM Mashinini Cllr. MS Ntsele Cllr. NJ Mokoena Cllr. SDA Wessels Cllr. SE Tshabalala Cllr. SJM Mofokeng Cllr. SOA Mokoena Cllr. TM Tshabalala Cllr. VP Kibido

There were no transactions with related parties in the year.

Key management information

Executive Mayor	Cllr. TJ Motaung

Remuneration of management

42. Related parties (continued)

Councillors/Mayoral committee members

2018

Name	Basic salary	Other	Travel Allowance	Cellphone Allowance	Total
Executive Mayor - Cllr. TJ Motaung	596,935	8,068	198,978	40,800	844,781
Speaker - Cllr. STR Zwane	477,548	6,253	159,183	40,800	683,784
Cllr. B Mthombeni	188,908	3,053	62,969	40,800	295,730
Cllr. BV Khumalo	188,908	3,053	62,969	40,800	295,730
Cllr. KA Sibeko	188,908	3,053	62,969	40,800	295,730
Cllr. MB Mhlambi	188,908	3,053	62,969	40,800	295,730
Cllr. MM Mashinini	188,908	3,053	62,969	40,800	295,730
Cllr. MS Ntsele	188,908	3,053	62,969	40,800	295,730
Cllr. NJ Mokoena	188,908	3,053	62,969	40,800	295,730
Cllr. SDA Wessels	249,764	3,368	83,255	40,800	377,187
Cllr. SE Tshabalala	249,764	3,368	83,255	40,800	377,187
Cllr. SJM Mofokeng	188,908	3,054	62,969	40,800	295,731
Cllr. SOA Mokoena	188,908	3,054	62,969	40,800	295,731
Cllr. TM Tshabalala	188,908	3,054	62,969	40,800	295,731
Cllr. VP Kibido	188,908	3,054	62,969	40,800	295,731
Ward Commitees	475,000	-	-	-	475,000
	4,126,999	**54,644**	**1,217,330**	**612,000**	**6,010,973**

2017

Name	Basic salary	Other	Travel Allowance	Cellphone Allowance	Total
Executive Mayor - Cllr. TJ Motaung	568,509	7,505	189,503	22,800	788,317
Speaker - Cllr. STR Zwane	454,808	5,875	151,602	22,800	635,085
Cllr. B Mthombeni	159,918	2,804	53,306	20,459	236,487
Cllr. BV Khumalo	159,918	2,804	53,306	20,459	236,487

Phumelela Local Municipality
(Registration number Demarcation number: FS 195)
Unaudited Annual Financial Statements for the year ended 30 June 2018

Notes to the Unaudited Annual Financial Statements

Figures in Rand

42. Related parties (continued)

Cllr. KA Sibeko	195,417	2,804	65,139	22,915	286,275
Cllr. MB Mhlambi	159,918	2,804	53,306	20,459	236,487
Cllr. MM Mashinini	159,918	2,804	53,306	20,459	236,487
Cllr. MS Ntsele	159,918	2,804	53,306	20,459	236,487
Cllr. NJ Mokoena	159,918	2,804	53,306	20,459	236,487
Cllr. SDA Wessels	235,626	2,804	78,542	22,800	339,772
Cllr. SE Tshabalala	215,291	2,804	71,764	22,806	312,665
Cllr. SJM Mofokeng	178,214	2,804	59,405	22,800	263,223
Cllr. SOA Mokoena	178,215	2,804	59,405	22,800	263,224
Cllr. TM Tshabalala	159,918	2,804	53,306	20,459	236,487
Cllr. VP Kibido	159,918	2,804	53,306	20,459	236,487
Cllr. TN Masiteng	19,128	383	6,376	1,153	27,040
Cllr. LM Msimanga	19,128	383	6,376	1,153	27,040
Cllr. AD Radebe	19,128	383	6,376	1,153	27,040
Cllr. TE Radebe	19,128	383	6,376	1,153	27,040
Cllr. JM Ngwenya-Sithebe	19,128	383	6,376	1,153	27,040
Cllr. MD Kobeni	25,291	509	8,430	1,153	35,383
Ward Commitees	331,088	-	-	-	331,088
	3,757,443	**52,256**	**1,142,118**	**330,311**	**5,282,128**

Refer to note "Remuneration of councillors"

43. Prior period errors

Property, plant and equipment were depreciated at the tax rates. The useful lives and residual values were not appropriately considered. (Give the nature of the error.)

Statement of Financial Position:
1. Receivables from exchange transactions - Correction of stock on hand
2. VAT Receivable - Correction of Work in Progress
3. Property, plant and equipment - Correction of Work in Progress & Correction of depreciation and additions of 2017 Movable Assets
4. Payables from exchange transactions - Correction of Retention

Figures in Rand	2018	2017

43. Prior period errors (continued)

Statement of Financial Performance:
1. Depreciation - Correction of depreciation and additions of 2017 Movable Assets
2. General Expenses - Correction of incorrect transactions
3. Repairs and maintenance - Correction of Capital expense

The correction of the error(s) results in adjustments as follows:

Statement of financial position		
Receivables from exchange transactions	(710)	-
VAT Receivable	(1,725,054)	-
Property, plant and equipment	397,741	-
Payables from exchange transactions	1,348,970	-
Opening Accumulated Surplus or Deficit	20,947	-
Statement of financial performance		
Depreciation	5,942	-
General Expenses	(6,344,289)	-
Repairs and maintenance	5,675,729	-

44. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk, but the exposure is limited to the the municipality’s management thereof. Due to largely, "non-trading nature" of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Budget and Treasury Office monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The municipality does not enter into or trade financial instruments for speculative purposes. Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports monthly to the municipality’s audit committee, an independent body that monitors the effectiveness of the internal audit function.

44. Risk management (continued)

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The Municipality managing of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses. Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met. The tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	233,742,896	-	-	-

At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	186,047,085	-	-	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2018	2017
Receivables from non-exchange transactions	2,417,449	607,236
Receivables from exchange transactions	11,809,606	4,997,902
Bank balances and cash	7,843,545	1,143,293

Market risk

Figures in Rand	2018	2017

44. Risk management (continued)

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income received on interest on investments are dependent of changes in market interest rates. Interest rate risk is deferred that the fair value of future cash flows associated with a financial instrument will fluctuate in amount as a result in market interest changes.

To decrease interest rate risk exposure, investments is mostly done on a on a term not longer than six months. The current Interest rate shown below is the average interest earned during the year under review on call investment deposits and cash in current banking institutions.

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Cash in current banking institutions	Tiered	337,729	-	-	-	-
Call investment deposits	6.50 %	7,505,816	-	-	-	-

Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the statement of financial position either as available for sale or at fair value through surplus or deficit. The municipality is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the municipality diversifies its portfolio. Diversification of the portfolio is done in accordance /with the limits set by the municipality. The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

Surplus for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available for sale.

45. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus (deficit) of R 522,212,783 and that the municipality's total liabilities exceed its assets by R 522,212,783.

The unaudited annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The municipality is experience some financial difficulties, indicators are as follows:.
1. Suppliers are not paid within the legislative 30 days;
2. Employee benefit obligations are unfunded;
3. High levels of distribution losses;
4. Slow collection and low recoverability of outstanding consumer accounts; and
5. Unfavourable financial ratios

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

46. Unauthorised expenditure

	2018	2017
Opening balance	469,018,929	375,453,473
Movement	64,640,652	93,565,456
Less: Amounts condoned (Relating to 2016/17)	(93,565,456)	-
	440,094,125	**469,018,929**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2018	2017

46. Unauthorised expenditure (continued)

Unauthorised expenditure will be investigated in terms of section 32 of the MFMA.

Unauthorised expenditure relating to 2016/17 was condoned by Council during the year.

47. Fruitless and wasteful expenditure

Opening balance	12,981,251	12,370,805
Add: Fruitless & Wasteful Expenditure - current year	446,403	610,446
Less: Amounts condoned (Relating to 2016/17)	(610,446)	-
	12,817,208	**12,981,251**

Fruitless expenditure mainly relates to the interest that has been charged on outstanding accounts:

Eskom - Interest	435,005.92
Telkom - Interest	7,235.27
Mlenaar & Griffiths Inc	3,163.63
Pretorius & Bosman	835.50
Ben Hur Bande	162.57

Fruitless and wasteful expenditure will be will be investigated in terms of section 32 of the MFMA.

Fruitless & Wasteful expenditure relating to 2016/17 was condoned by Council during the year.

48. Irregular expenditure

Opening balance	157,529,015	145,564,583
Add: Other Irregular Expenditure - current year	4,579,464	11,964,432
Less: Amounts condoned (Relating to 2016/17)	(11,964,432)	-
	150,144,047	**157,529,015**

Analysis of expenditure awaiting condonation per age classification

Current year	4,579,464	11,964,432
Prior years	145,564,583	145,564,583
	150,144,047	**157,529,015**

Details of irregular expenditure condoned

	Condoned by (condoning authority)	
Irregular Expenditure relating to 2016/17 finacial year	Council	(11,964,432)
		(11,964,432)

49. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	65,667	9,416
Current year subscription / fee	635,620	594,565
Amount paid - current year	(472,910)	(538,314)
	228,377	**65,667**

Phumelela Local Municipality
(Registration number Demarcation number: FS 195)
Unaudited Annual Financial Statements for the year ended 30 June 2018

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2018	2017

49. Additional disclosure in terms of Municipal Finance Management Act (continued)

Material losses

Electricity Distribution loss	14,041,539	13,976,193
Water Distribution loss	3,667,552	4,550,768
	17,709,091	**18,526,961**

Audit fees

Opening balance	1,694,904	3,301,372
Current year subscription / fee	-	2,798,532
Amount paid - current year	-	(2,000,000)
Amount paid - Donation from Treasury	-	(2,405,000)
	1,694,904	**1,694,904**

PAYE and UIF

Opening balance	1,063,100	1,063,100
Current year subscription / fee	5,821,282	6,760,577
Amount paid - current year	(5,821,282)	(6,760,577)
	1,063,100	**1,063,100**

Pension and Medical Aid Deductions

Opening balance	1,808,336	1,808,336
Current year subscription / fee	11,976,828	11,289,228
Amount paid - current year	(11,976,828)	(11,289,228)
	1,808,336	**1,808,336**

VAT

VAT receivable	10,476,829	6,121,305
	10,476,829	**6,121,305**

All VAT returns have been submitted by the due date throughout the year.

Phumelela Local Municipality
(Registration number Demarcation number: FS 195)
Unaudited Annual Financial Statements for the year ended 30 June 2018

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2018	2017

49. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
TJ Motaung	987	-	987
MJ Zwane	2,016	-	2,016
SE Tshabalala	435	-	435
VP Kibido	560	10,505	11,065
	3,998	**10,505**	**14,503**

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
TJ Motaung	508	-	508
VP Kibido	683	16,731	17,414
MM Mashinini	93	-	93
KA Sibeko	-	2,724	2,724
	1,284	**19,455**	**20,739**

During the year the following Councillors had arrear accounts outstanding for more than 90 days.

30 June 2018	Highest outstanding amount	Aging (in days)
VP Kibido	10,241	180
MJ Zwane	1,114	60
TJ Motaung	853	30
SE Tshabalala	324	30
	12,532	**-**

30 June 2017	Highest outstanding amount	Aging (in days)
KA Sibeko	2,310	180
VP Kibido	15,767	180
MM Mashinini	93	30
TJ Motaung	446	30
	18,616	**-**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2018	2017

49. Additional disclosure in terms of Municipal Finance Management Act (continued)

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident	2018	2017
Hiring of movable pump in Warden-Miya Technologies and project (pty)ltd	-	15,600
Repairs to Warden sewer tank,steel pipe,sewer line-Phumelela Fire and Rescue services	-	14,306
AFS Preparation and Audit Assistance - PKF West Rand	1,850,000	2,400,000
Hiring of movable pump in Warden- Q and H Water and Sewer Services pvt(ltd)	-	16,382
Sewer pump repair at warden and vrede-Miya Technologies and Project (pvt)ltd	-	181,688
Fix blowing roof- Mandla Mkwananzi	-	24,800
Repair of sewer pump: Vrede pumpstation - Miya Technologies and project (pty)ltd	-	42,426
Repair of sewer pump: Vrede pumpstation - Miya Technologies and project (pty)ltd	-	38,393
Delivery and installation of new pump at Warden pumpstation - Miya Technologies and project (pty)ltd	162,244	-
Supply of raw water pump in vrede - Thomlang Enterprise and Services	128,269	-
Installation of clear view in municipal cemetries - Thomlang Enterprise and Services	3,528,975	-
Repairs to raw water pump - Vrede Trekkers	3,762	-
Hiring of fleet - Vrede Trekkers	121,234	-
Hiring of fleet - Vrede Trekkers	55,974	-
	5,850,458	**2,733,595**

Other Disclosures - Fraud

1. Memel Fraud:

In June 2017, management discovered that consumers in Memel were complaining that their accounts are not credited with amounts as per their receipts.

Management then investigated the matter and discovered that one of the employees is involved and she admitted that she took the money for her personal use.

The matter was reported to SAPS and the employee was suspended.

The matter is still under investigation and currently it is known how much was taken by the employee as we rely on consumers when they come forward and complain about their accounts.

The matter was also reported to council.

2. Vrede Fraud - Cash:

In April 2018, management discovered that there were receipts captured against debtors’ accounts and later reversed against the grave fees vote.

Management investigated the matter and discovered that one of the employees is involved and had been processing the reversal in order to balance the daily cash takings with the amount deposited at the bank, and embezzling the reversed amount.

The matter was reported to the SAPS and the employee has subsequently resigned.

The matter is still under investigation and currently an amount of R53 907 has been discovered as stolen.

The matter was also reported to council.

49. Additional disclosure in terms of Municipal Finance Management Act (continued)

3. Vrede Fraud – Movable Assets:

In August 2018, management discovered that there is an official (Intern) selling the Municipality's movable assets.

Management investigated the matter and discovered that a Massey Ferguson tractor was sold to a farmer from Memel and a Map Plotter was sold to an individual in Johannesburg. In both cases it was found that the official in question had forged the Municipal Manager's signature in the agreements of sale given to the buyers.

The matter was reported to the SAPS and the employee's contract was immediately terminated.

The matter is currently under investigation by the SAPS and the employee was released on bail

Phumelela Local Municipality
Appendix D

Segmental Statement of Financial Performance for the year ended

Prior Year				Current Year		
Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand		Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand
			Municipality			
			Municipal Owned Entities			
			Other charges			

Phumelela Local Municipality
Appendix E(1)

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2010

	Current year 2012 Act. Bal. Rand	Current year 2012 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Service charges	34,175,390	-	34,175,390	-	
Rental of facilities and equipment	1,290,307	-	1,290,307	-	
Other income - (rollup)	459,849	-	459,849	-	
Interest received - investment	9,668,703	-	9,668,703	-	
	45,594,249	-	45,594,249	-	
Expenses					
Personnel	(59,010,458)	-	(59,010,458)	-	
Remuneration of councillors	(6,010,973)	-	(6,010,973)	-	
Depreciation	(16,857,179)	-	(16,857,179)	-	
Impairments	(48,600)	-	(48,600)	-	
Finance costs	(22,855,959)	-	(22,855,959)	-	
Debt Impairment	(29,840,737)	-	(29,840,737)	-	
Collection costs	-	-	-	-	
Repairs and maintenance - General	(3,441,688)	-	(3,441,688)	-	
Bulk purchases	(29,567,775)	-	(29,567,775)	-	
Contracted Services	(6,314,694)	-	(6,314,694)	-	
General Expenses	(17,438,586)	-	(17,438,586)	-	
	(191,386,649)	-	(191,386,649)	-	
Other revenue and costs					
Gain or loss on disposal of assets and liabilities	40,671,888	-	40,671,888	-	
	40,671,888	-	40,671,888	-	
Net surplus/ (deficit) for the year	(105,120,512)	-	(105,120,512)	-	